

Technical Assistance Facility (TAF) for Industrial Modernisation and Investment

TOOL #5 Your target funding mix

Sources of public-private financing for successful implementation and market placement

What is the tool about?

Finding the optimal mix of financing—the **capital structure that results in maximum value**—is a key challenge to face in starting and operating your business. Depending on the stage of development, if it is at the level of R&D, start-up or scale-up life cycle, a wide array of diverse financing methods such as debt financing and equity funding, including grants can be tailored according to your needs. Thus, the important step in business planning process is to **identify the matching sources of financing** that will **secure implementation** of your investment idea as well **its long-term sustainability**. Often the best approach is to look for different type of funding sources, so called funding mix (public-private type of financing), as **the financial instrument differs pending on the stage of the investment development process**. Therefore, this tool provides insights on the potential funding mix streams to be considered for the implementation of your investment/business.

Why is it important?

If the funding mix is not tailored to the stage of the investment cycle, your business may be put in danger and result in higher costs, which may have a **significant impact at the deployment of the products and services to be placed in the market**. The risk financing may not be the best option to consider at the R&D development stage as well as you cannot build your business based on the continuous grant schemes when the focus shall be on the revenues and cash flow instead.

Typology of funding mix per investment development stage



Checklist/key steps:

- ✚ **Align funding streams with the goal setting:** the business planning usually covers the 5-year investment period emphasising needs as well as goals to be met during each single stage in the process. As already noted, it is crucial that the funding mix is planned and elaborated throughout that process to ensure the investment development and deployment, including its short-term as well as long-term financial viability.
- ✚ **Validate your assumptions with the financial (experts) intermediaries:** even if there is a financial in-house expertise available, it is recommended to consult the third-party financial consultant and/or intermediary to validate the identified funding mix assumptions as they could provide a valid and objective point of view on the presented case.
- ✚ **Get closer to potential investors (public, private) by involving them in your business activities:** invest early (and make it continuous activity) in promotion of your business case among target actors, and engage them into your business activities by inviting them into the advisory board seats, committees, groups of interest etc.
- ✚ **Identify the proper legal entity/special purpose vehicle (SPV):** the SPV must have a legal form enabling the management of the different types of funds that will support the investment/business case in question.

Methods

Online search tools: The European Investment Fund (EIF) pages provide information on access to finance per country. By clicking on a country on the interactive map, the search offers an option to look for the financial intermediaries for loans and guarantees that are financed through the European Structural and Investment funds, a full list of VC/PE funds active per country, EFSI funding sources per country.

Provision of advice via partners and experts: If you are struggling with identification of the proper funding mix, the best is to seek for advice via partners and relevant networks as they may be a good source of information as well as mediators in introducing matching funding sources. If at certain stages this becomes the complex issue, the expert advice shall be sought to match the stage of development with the proper funding source.

Do's and don'ts for interregional investment initiative development:

Do's:

- ✚ **Identify timely the resources needed for the implementation** and make short and long-term financial projections accordingly. The identified financial gap(s) pending of the stage of the investment development should then be assessed in terms of finding the proper funding mix.
- ✚ **Use the available online search tools for the preliminary identification of the potential funding mix but** reach the final decision upon discussing with experienced partners, experts, intermediaries in the field.
- ✚ **Engage potential financiers in your business activities** such as committees, board seats and other to: secure potential financing from them (Business Angels, corporates, family offices, other private and public investors) as well as to get the provision of the expert advice on the subject.



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Don'ts:

- ✚ **Pick the funding instrument just because it is available and accessible** instead of making sure the instrument will match the actual needs and will result in positive balance.
- ✚ **"One size does fit all" is not the right approach when deciding about the funding mix** but the careful assessment according to the overall financial projections, estimated cash flow and revenues aligned to the needed resources and the identified financial gap(s).

Case study:

- ✚ Tourism of Tomorrow Lab project from the Digitalisation and Safety for Tourism partnership.

More resources:

- ✚ VC/PE funding sources per country: <https://bit.ly/3GfAWO0>
- ✚ European Investment bank: <https://bit.ly/3IE8jSX>
- ✚ European Fund for Strategic Investments (EFSI): <https://bit.ly/3GfAWO0>
- ✚ InvestEU Programme: <https://bit.ly/3EJvm6p>; European Innovation Council (EIC): <https://bit.ly/3y7mbdQ>